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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 24
WEEK OF 20 OCTOBER - 26 OCTOBER 1948

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Plans to rehabilitate Japan's economy within next five years are being hindered by poor sales of cotton textiles (page 3).

Japanese Government appears to be adopting a stronger anti-Communist policy (page 5).

The Republic of Korea appears to have disposed of the first serious threat to its authority with the suppression of the YOSU uprising (page 6). Although an armed invasion of South Korea by the North Korean People's Army is improbable as long as US troops occupy the area, continued threats of invasion may be expected to emanate from North Korea as a means of encouraging the subversive activities of South Korean Communists (page 7). The Rhee Government may be faced with economic and political instability next spring due to the apparently deliberate sabotage of the grain collection program by the Ministry of Agriculture, a self-styled "former Communist." (page 7).

In China CHIANG Kai-shek apparently has conceded Manchuria to the Communists (page 8) and T. V. SOONG is making plans to defend South China (page 8). The leader of the Shanghai underworld is reportedly making arrangements with Communist representatives to facilitate eventual turn-over of that city (page 8). Public pressure may precipitate important changes in the National Government, including CHIANG Kai-shek's departure (page 9), while the Communists continue to push their plans for a coalition government (page 9). The gold yuan is collapsing as pressure mounts to

NOTE: In succeeding sections of this Weekly, the following marginal notations are used:

- (1) Double Asterisk (**) --placed at beginning and end of information based solely on "S/S distribution" series.
- (2) Single Asterisk (*) --to flag item containing "S/S distribution" series.
- (3) "A", "B", or "C" --importance, in B/FE's opinion, of the item, with "A" representing the most important ones.

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SUMMARY (continued)

relax price controls (page 10) and unpopular economic reform measures have produced a psychological crisis in Taiwan (page 10).

Notwithstanding China's advanced internal disorganization, the Chinese Government is continuing to exert pressure for preferential treatment of Chinese in Siam (page 8).

Dutch-Republican negotiations may resume about 1 November (page 11).

A revised French policy towards Indochina may be carried out by the newly appointed French High Commissioner (page 11).

The Burmese Government's difficulties may be eased by the possible capitulation of a large opposition group (page 11).

Problems of the Japanese Police System -- See SECTION III (page 13).

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Japan attempts to improve the sale of cotton textile abroad

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SCAP is continuing strenuous efforts to better the sales of Japanese cotton textiles which have recently slumped. The US Political Adviser in Tokyo reports that Pakistan has indicated its willingness to make appreciable cotton textile purchases from Japan and in turn is prepared to allocate substantial quantities of raw cotton to Japan. Additionally, Pakistan is interested in obtaining its capital goods requirements from Japan in return for certain raw materials, principally raw cotton and jute, as well as leather, hides and mica.

At the same time, the Netherlands and Indonesia are reported to have agreed to buy next year a substantial quantity of cotton textiles from Japan. In return, Japan will receive rubber, bauxite, salt, tin, industrial chemicals, hides and skins, drugs and lumber. Unless Japanese exports of cotton textiles spurt within the latter part of 1948, it is believed doubtful that Japan can attain export goals for the year. Moreover, the poor sales of Japanese cotton textiles because of the planned emphasis on export of this commodity are said to render "unrealistic" plans to raise Japan to a viable economy within the next 5 years.

Chinese-Siamese friction continues

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Notwithstanding China's advanced internal disorganization, the Chinese Government is continuing to exert pressure for preferential treatment of Chinese in Siam. Sino-Siamese friction stems from Chinese insistence upon the maintenance of: (1) Chinese language schools in Siam; (2) political groups such as the KMT; (3) a large Chinese immigration quota; and (4) non-interference in Chinese rice milling enterprises.

The temporary settlement of the Chinese schools question appears to have been a partial victory for the Chinese. On the other hand, Siam has formally turned down a Chinese demand for a "prompt and full reply" to a note requiring information concerning the arrest and detention under the anti-secret society law of some 200 Chinese. It is doubtful that the Chinese Government will let this issue die; and it is also doubtful that the Siamese action will break up Chinese political organizations in Siam, but rather will temporarily force them underground. The issue of Chinese immigration is an academic question since it is probable that illegal Chinese immigrants outnumber legal entries. The Siamese currently are attempting to lower the annual Chinese quota, but because of widespread corruption among border guards

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GENERAL (continued)

and immigration officials, it is not expected that the actual number of Chinese entries will be reduced.

The trend towards economic nationalism currently exhibited by the Siamese Government is aimed primarily at the Chinese hold on Siam's economy. A recently initiated government regulation designed to maximize treasury returns from the sale and milling of rice hit the Chinese particularly hard since most important rice dealers and mill owners are Chinese. The recent closure of some 400 mills by the owners was ostensibly undertaken because of reduced profits. However, it is likely that the shutdown is actually a Chinese inspired strike against the policy of the Siamese Government and is an excellent example of the ability of the local Chinese to exert economic pressure to further their interests.

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JAPAN

Possible trend for Japanese Government's more rigorous Communist policy. The Japanese Government appears to be dealing more rigorously with the Japan Communist Party (JCP) than it has heretofore, as a countermeasure to the constant communist pressure of activity in political, economical, educational and cultural fields.

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Conservative elements in the Ashida Government welcomed the now-celebrated MacArthur letter of 22 July on which was based the Cabinet order prohibiting strikes and collective bargaining on the part of government officials and employees. This ban had the effect of limiting JCP effectiveness in the critical communications and railroad unions. In mid-October, after the attack on communism in the labor field, the government through an Education Ministry Order prohibited political activity in schools and universities. This measure was again aimed primarily at the JCP. On 20 October eight communist students were expelled from Nagano Normal School for failure to observe the ban on political activity.

The coming to power of the Yoshida Government, representing the most conservative elements in Japanese politics, would appear to promise that the Japan Communist Party may anticipate even more severe restrictions in the future. The Yoshida Government representing only the conservative Democratic Liberal Party as contrasted with the Ashida Government's "middle-of-the-road" which was dependent on the somewhat leftist Social Democrats, will feel less restricted in its dealings with the JCP. Random confirmation of this feeling is reflected in the decision of the Diet's House of Representatives Rules Committee that no Communist will be permitted to sit as a regular member of this committee. At present there is one Communist committee member.

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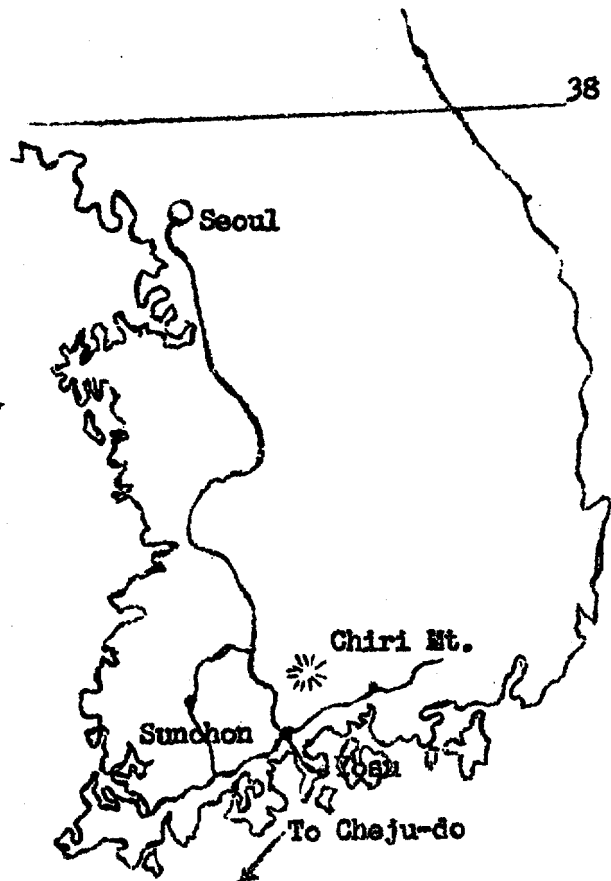
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KOREA

The Republic of Korea appears to have disposed of the first serious threat to its authority. On 20 October, in the southern coastal town of Yosŭ, Communist cell leaders in a Korean Constabulary unit seized the armory and led a portion of the troops in an attack against the town police and Constabulary officers. From the interrogations of captured insurgents it appears that many of them were told by the ring leaders that they were merely suppressing a police "revolt" or that they were being issued arms simply in preparation for a scheduled movement of the unit to Chŭju-do. Cholla-Mando is historically an area of depressed tenant farmers who are hostile toward the police and susceptible to Communist propaganda. The leaders of the revolt were able to exploit this feeling to the extent of gathering a mob following of some three to four thousand, and of gaining temporary control of Yosŭ, Suncheon and several other small localities. In the insurgent-held area loyal police and rightist leaders were executed and the banners of the South Korea Labor Party and the North Korean government were displayed. Korean Police and Constabulary units moved into the area, and by 25 October, the insurgents had generally dispersed, except in Yosŭ which was under heavy government pressure. It is anticipated that the task of eliminating the concentrations of insurgents in the Chiri Mountain area will require several months. Information available on the conduct of government military operations is insufficient to permit an evaluation of the combat efficiency of the Korean armed forces.

The revolt may have been planned to serve two main Soviet objectives: (a) to illustrate to the UN that the Republic of Korea is an unpopular regime supported only by Police and the US Army; (however, US troops did not become involved, and if UN Commission members in Seoul become convinced of Communist complicity in the revolt, the incident may backfire on the USSR); and (b) to initiate a series of riots and strikes that



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KOREA (Cont.)

would dissipate the economic and military strength of the Republic and pave the way for the extension of the North Korean Government's control throughout the peninsula following the eventual withdrawal of US forces.

Meanwhile, the Rhee government has utilized the incident in a further attempt to discredit its non-Communist opposition by alleging that Kim Koo and other rightists worked with the Communists in planning the revolt. Rhee has also seized the opportunity to increase control of the press and to eliminate known Communist sympathizers.

An armed invasion of South Korea by the North Korean People's Army (PA) is improbable as long as US troops occupy the area. Nevertheless, the invasion of South Korea after US troops withdraw will become a probability if a Communist attempt to "unify" Korea by means of a bloodless coup is unsuccessful.

As early as March 1947, and again in February, March, and April 1948, reports were received which presaged an invasion of South Korea by the PA. Since previously threatened invasions in every case failed to materialize, such threats have not been the occasion for alarm. However, such recent events as the Soviet withdrawal from North Korea, communications improvements in North Korea, movements of PA troops to areas near the 38th parallel, reported movement of elements of PA Third Division from Manchuria into North Korea, and PA combined maneuvers all point to preparations for armed conflict with the South Korean Government when Soviet withdrawal from North Korea is complete.

Communist agents have been directed to intensify disturbances in late November for the ostensible purpose of facilitating an invasion of South Korea in February 1949. Although the promised invasion will probably not materialize, it is being used as an incentive for South Korean Communists to precipitate such disorders as the Yosu uprising which will serve to bolster the Soviet position in the UN discussions on Korea in November.

The Republic may soon be faced with a new crisis on the national level. The Minister of Agriculture, a former Communist, has seriously delayed the grain purchasing program to a point indicating deliberate sabotage. Successful collection of grain this winter is a pre-requisite of economic and political stability in South Korea next spring and summer.

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CHINA

CHANG Kai-shek apparently has conceded Manchuria to the Communists and has ordered the evacuation of his troops from Mukden via the recently captured port of Yingkou. Those Nationalist units now in the Heilun area will try to drive through the gathering Communist forces and reach Chinai, but they have little chance of succeeding unless the Communists allow them to pass through as the price of a quick Communist occupation of Mukden.

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In China proper a renewed Communist threat is building up in the Huaihsi area; the Communist assault on Taiyuan continued with rumors current that YEN Hsi-shan may be ready to go over to the Communists. Central and East China remained relatively quiet. The Communists have occupied Chenghsien and claim to have taken over Keifeng, following Nationalist withdrawals from those cities. The morale of Nationalist troops at Kauchow is said to be so low as to prejudice any effective resistance.

The appearance of several new Communist forces further increases the seriousness of the Nationalist position. One new force of some 40,000 has been reported in the area south of Tientsin, adding to the tenuousness of the Nationalist hold on this vital but lightly held point. A new column also has been formed from several irregular units in the Tsingtao area. This column, called the New 14th, can join other Communist units in eastern Shantung, released by the occupation of Chefoo, and begin harassing the Tsingtao perimeter.

A reshuffle of the North China military command resulting in the abolition of the North China Communist-Suppression Headquarters, the transfer of Gen. FU Tso-yi to Kalgan, and Gen. WEI Li-huang to a North China command appears likely. This change probably reflects FU's determination to move his troops intact to his old base in Suiyuan to avoid being trapped in the Peiping-Tientsin area.

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South China defense plans are being laid by Kwangtung Governor T.V. SOONG, who seems convinced that inevitable changes in the National Government will come soon. SOONG plans to supply arms and ammunition for troops commanded by Gen. CHENG Chien who is now in Canton preparing to train and develop a force to defend Khaman, Kiangsi, Kwangtung, Kwangsi and Fukien. The Kwangtung governor claims to have more arms than he can use, including 2,000 Bren guns obtained from Canada and a large quantity of machine guns and small arms ammunition from French sources.

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Plans to turn Shanghai over to the Communists are reportedly being discussed by Communist representatives and TU Yueh-sheng.

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powerful underworld leader in that city. An attempt by the Communists to enlist TU's support would be a very shrewd move. The latter is antagonistic to the constituted authorities for impeding his various illicit activities and for the recent arrest and imprisonment of his son. Although the Communists may not be ready to move on Shanghai for several months the cooperation of TU's well-organized underworld forces would considerably facilitate an eventual Communist occupation of that city.

Important changes in the Chinese National Government may be caused by official and popular awareness of its military and economic weakness. A possible early development is the departure of CHIANG Kai-shek which might be occasioned by Kuomintang political strategy or by overt pressures against the Government. The advisability of CHIANG's retirement has been discussed recently by Kuomintang leaders occupying various governmental positions. Should CHIANG be forced from power the succeeding government, even if headed by avowed reformers such as Vice President LI Tsung-jen, probably would be even weaker than the present regime. It is unlikely that such a new government would be able to command the support of various Whampoa generals, CC clique leaders and other key groups in the Kuomintang and the administration on which CHIANG has long depended. T.V. SOONG and other powerful administrators would tend to look primarily to their regional interests, as would the rulers of various outlying provinces. Any new government likewise would be unable to make favorable truce terms with the Communists and, therefore, might accept face-saving plans for creation of a Communist-dominated coalition regime.

"A"

The Communists continue to play for "coalition government." The Communists' self-stated "new political consultative conference to formulate plans for a coalition government" has attracted a mission from the anti-Nationalist Kuomintang Revolutionary Committee in Hong Kong, and it is possible that a KMTRC Army will be formed, under Communist control, to promote increased defection of Nationalist forces. A "coalition government" of the Communists, the KMTRC, the Democratic League, and other dissident groups would be advantageous to the Communists in that it would offer a somewhat less distasteful haven for wavering Nationalist elements than could a totally Communist government.

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However, such a coalition does not seem likely as long as the current of events in China continues in its present course and velocity, for, at the time at which these plans for coalition are completed, it is probable the Nationalists will have no alternative to that of submitting to a Communist-dominated "coalition government" for all of China. It therefore seems most likely that the Communists, together with the various dissident groups oriented towards them, will continue to develop plans, through the political consultative conference among

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other means, for a government for all of China, and that a framework will be constructed to accomodate these remnants of the National Government still desirable to the Communists at the time of final Nationalist capitulation, and that it will be this framework which will be proclaimed as a "coalition government."

China's new currency, the gold yuan, is collapsing as indications appear that the Chinese Government plans to unfreeze August 19 price levels. The two chief pressures forcing the Government's hand are the acute food shortage in major cities and industrial curtailment due to the lack of raw materials. Price differentials of agricultural commodities in rural and urban areas, caused by unchecked price increases approaching the July rates in the former and price controls in the latter, have prevented these commodities from moving to the cities. An important break in the August 19 price level has already been made by the Nationalist Army which is authorized to procure foodstuffs at the price asked. Although ineffective controls may again be attempted, once the present controls are relaxed it will be difficult, if not impossible, to undertake them again.

The necessity for increasing U.S. aid to China has been urgently stressed this past week by both Ambassador Stuart and China Aid Director Lapham. Insisting that present and planned measures are insufficient, these officials urge all-out aid to China limited only by our national resources and commitments to other countries. **The Ambassador's proposal is to meet the present crisis by telescoping the entire commodity program, scheduled to be spread out through April 1949, into the next few months.** Lapham's publically announced statement, which was enthusiastically greeted by the Chinese press, urged a long-range program with annual appropriations in excess of the present US \$400 million.

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Reaction in Taiwan to stringent Government economic controls has precipitated a psychological crisis there and indicates the situation is potentially dangerous although there is little active hostility at the moment. Commodities and all black-market prices have more than quadrupled since September 1, offering Taiwan extremists, particularly pro-Japanese groups, an opportunity to provoke the populace into an incident to embarrass the Government. Governor WEI Tao-ming charged the National Government with ordering price controls for Taiwan while he was in Nanking, thereby precipitating a crisis among the populace who previously were seemingly unaware of critical mainland conditions.

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INDONESIA

Dutch and Republicans prepare to resume negotiations. The Republican "B" Cabinet, after considerable pressure from President Soekarno and Premier Hatta, has formally accepted the US draft agreement as a basis upon which to resume negotiations with the Dutch. Certain ministers were reluctant to accept the plan since Dutch acceptance is based on proposed amendments which substantially alter the US proposal. It would appear, however, that Soekarno and Hatta are prepared to stake their political future on the outcome of what may be the final round of UN Good Offices Committee negotiations. Although the Republic's acceptance was given a lukewarm welcome in The Hague, it is now expected that a final approval by the Dutch Government will be received in time to resume negotiation about 1 November.

INDOCHINA

New French High Commissioner may implement revised French policy. The "B" necessity for the early return of former Annamite emperor Bao Dai to Indochina to head the French-sponsored Vietnam state has been recognized in recent statements by French Government officials and in discussions of the problem in the French press. Premier Queuille's chief assistant on the Vietnamese problem maintains that the ex-emperor must be "provided with effective means to succeed" and is urging the Premier to secure Cabinet acceptance of a general plan for meeting minimum nationalist demands as well as a program of economic and military aid. This consideration of a definite policy coincides with the appointment of Léon Pignon to succeed Bollaert as French High Commissioner for Indochina. M. Pignon, who is considered as able, intelligent, and a non-partisan career civil servant, has had many years experience in the administration of Indochinese affairs. Inasmuch as Bao Dai appears to be demanding greater concessions than Ho Chi Minh received from the French in the 1946 negotiations, the success of a new French policy and Pignon's administration in Indochina may well depend upon a reconciliation of Bao Dai's demands with French sovereignty.

BURMA

Capitulation of large opposition group would ease government's difficulties. "B" Recent negotiations between Burmese Government officials and members of the rebellious "White Band" Peoples' Volunteer Organization (PVO) indicate that the latter may be ready to come to terms with the Government and reunite with the Anti-Fascist Peoples' Freedom League (AFPFL), the Government Party. A PVO capitulation at this time would greatly ease the Government's burdens because it would neutralize one of the largest groups in armed opposition to the Government and may lead to the return of PVO deserters to the army. It would also mean that the Communists would remain the only major effectively organized group in open rebellion. A PVO surrender, however, would not mean a speedy return to law and order. If they do surrender it

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BURMA (continued)

will probably be because of: (1) disappointment at not swiftly winning power and position; (2) the rigors of extended guerrilla life, and (3) fear of the Government's military forces. However, it is not likely that PVO leaders have given up their ambitions, and if they are taken back into the AFPFL and the Government, it can be expected that they will turn on the Government at an opportune moment. Furthermore, a PVO surrender probably would not be binding upon many of its members who, with the Communists and other lawless elements, will continue to harass the Government.

Another complication is the possible effect which a PVO-AFPFL rapprochement may have upon the Karen minority problem which is still a very delicate issue. It is possible that it will result in a stiffening of the Karen attitude on the matter of a separate state because they have consistently feared that since there were no great ideological differences between the various Burman groups these groups would eventually unite and suppress the Karens.

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SECTION III. DIGEST OF IMPORTANT STUDIES AND ESTIMATES

PROBLEMS OF THE JAPANESE POLICE SYSTEM

The structure and the scope of authority of the Japanese police system have been drastically reorganized by the passage of recent legislation. This legislation, in particular the Police Law, provides for a decentralized organization delegating police responsibility to all municipalities with a population of 5,000 or more; the formation of a small independent national police force for rural districts, with no command channels between the National Rural Police and local police except in time of national emergency; the establishment of popularly controlled commissions to direct the police; the limitation of police functions to maintenance of public safety and order; and legal and procedural guarantees, including safeguards against oppressive police methods. While the pattern of a democratically controlled police force has been established, many factors combine to raise the question of whether the police as constituted as present can effectively maintain public order. The major problems revolve around coordination of local and national police operations, the maintenance of adequate reserves of men and equipment for emergency situations, the financing of municipal police forces, and the improvement of police equipment and training.

Summary - PROBLEMS OF THE JAPANESE POLICE
SYSTEM.

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